

Property Tax and School Funding in Utah

Prepared by the Office of Legislative Research and General Counsel for:

Education Interim Committee
Utah State Legislature

September 17, 2008

Presentation Outline

- Property tax background
- Education funding and property tax
 - Basic indicators of school funding needs
 - School funding sources
 - School property taxes
 - Tax base
 - Tax rates
 - Tax revenues

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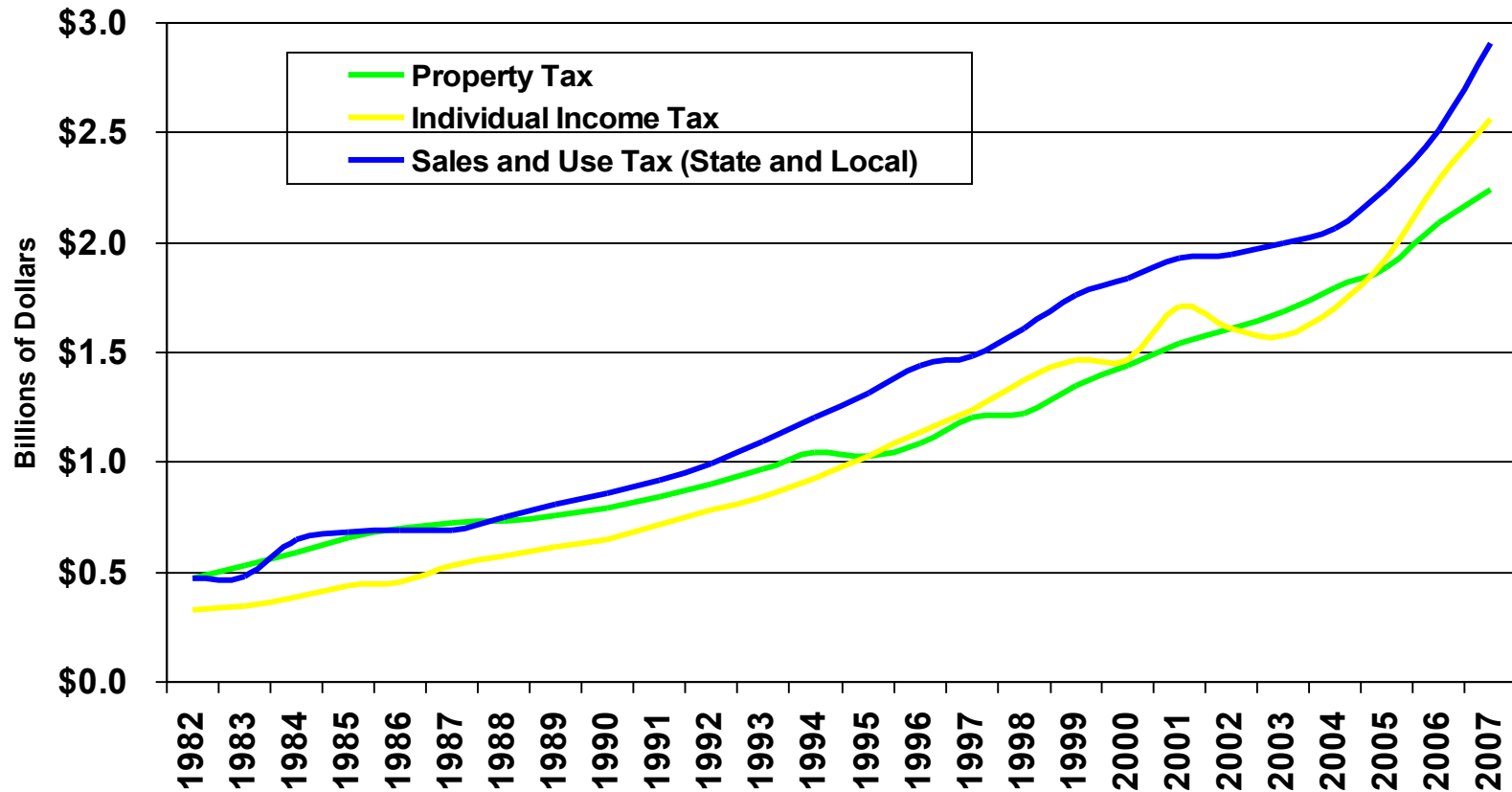
Why Discuss Property Taxes Today?

- Property tax is on the mind of many taxpayers
 - Preliminary property tax statements mailed in July
 - Truth in taxation hearings in August
 - Final 2008 property tax rates set by taxing entities after truth in taxation hearings, then verified and finalized by Tax Commission
 - Property tax bills mailed to property owners
- Property tax is a major school funding source
 - Majority of all property tax statewide goes to fund schools
 - General implications for overall education funding, including state budget implications
 - Implications when a new school district is created
- Taxable values have increased rapidly in recent years
 - Rapid value increases in existing property
 - Significant value growth from new property development

Three Major State & Local Revenue Sources

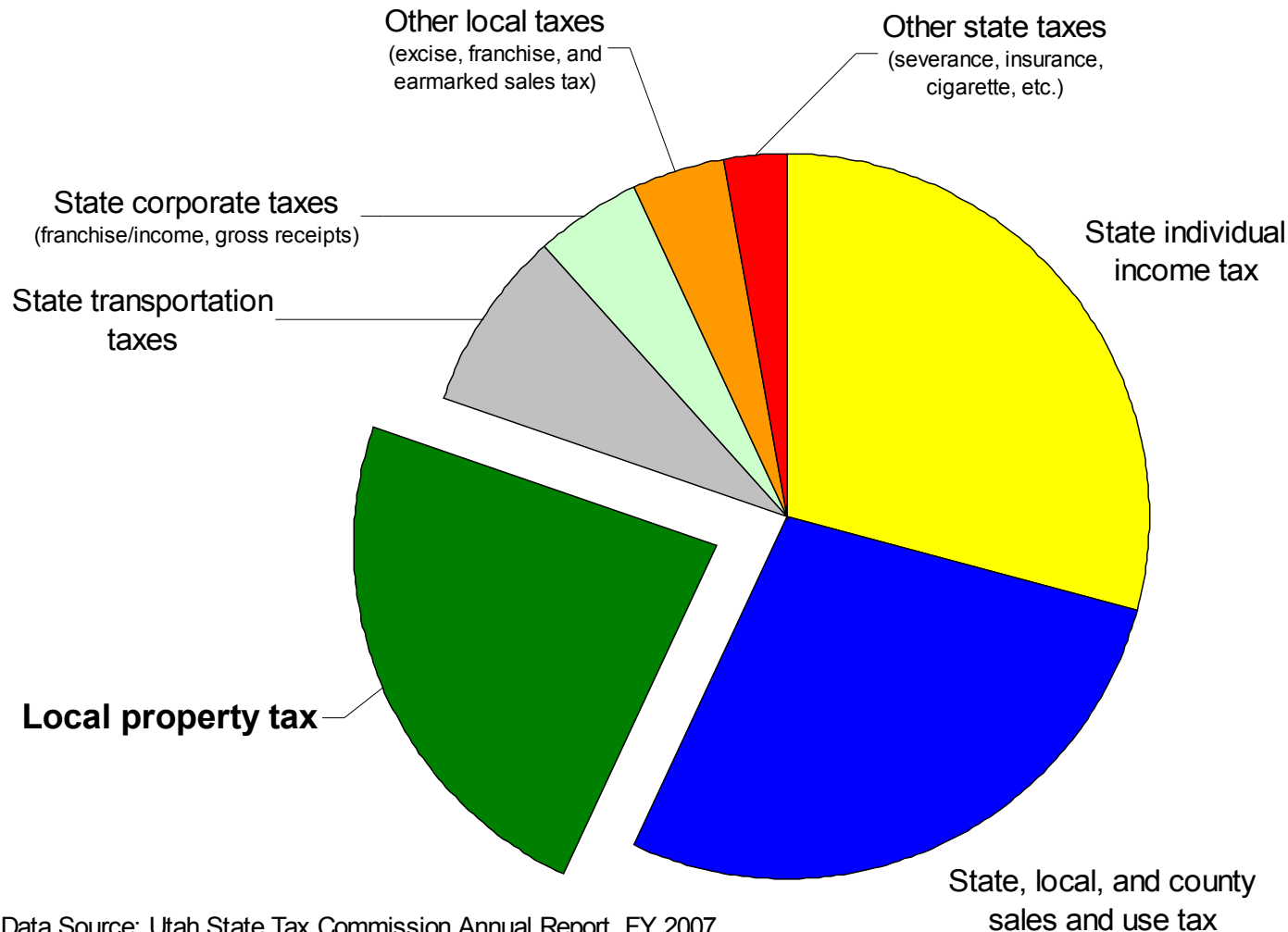
Income, Property, and Sales Tax

FY 1982 to FY 2007



Property Tax

A Major Component of Utah's State and Local Government Tax System



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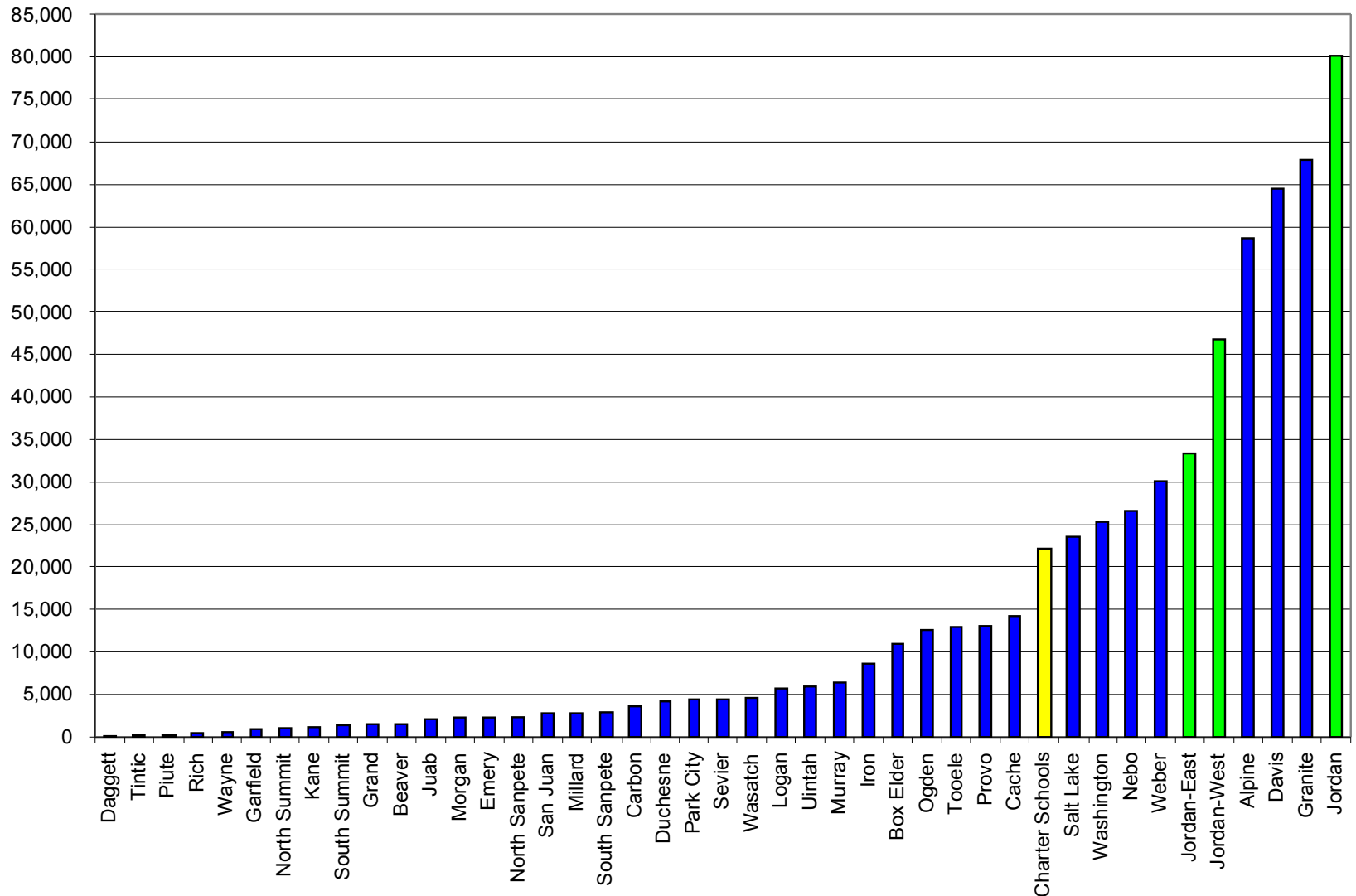
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Why Do School Districts Impose Property Taxes?

- To understand property taxes, it is helpful to initially consider why school districts impose the property tax
- Basic answer is to provide revenue to meet school funding needs
 - However, different definitions of funding “needs” exist
 - What are some basic measures of funding needs?

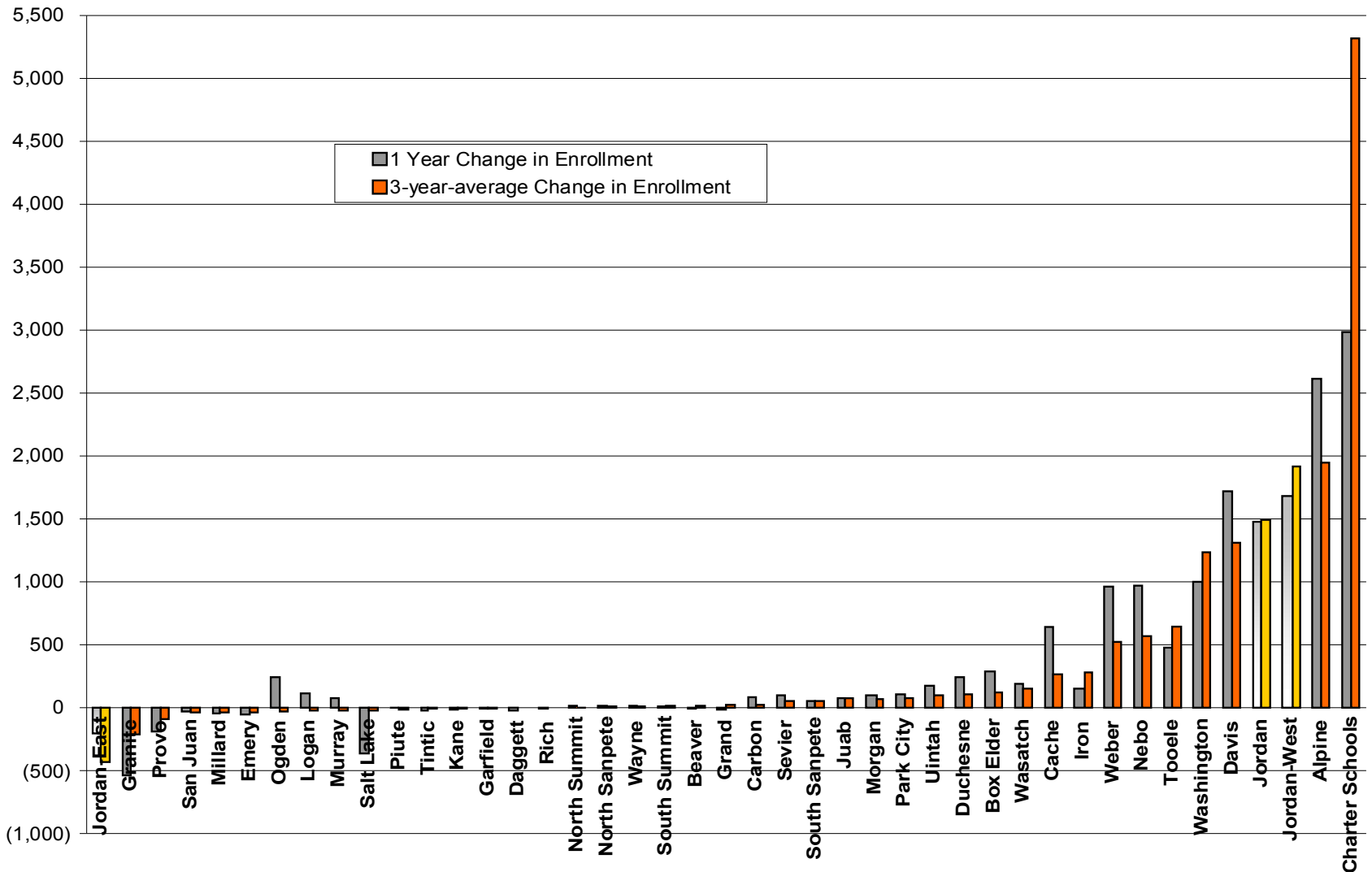
Basic Measures of School Funding Needs

Total Enrollment



Basic Measures of School Funding Needs

Enrollment Growth



Other Potential Measures of School Funding Needs

- Different types of students
 - Special education
 - English language learner
 - Gifted and talented
 - Low income
- Transportation / travel distance to school
- Capital infrastructure
 - Buildings (age, size, functionality, etc.)
 - Technology
- Other

Distribution of Needs and Tax Bases

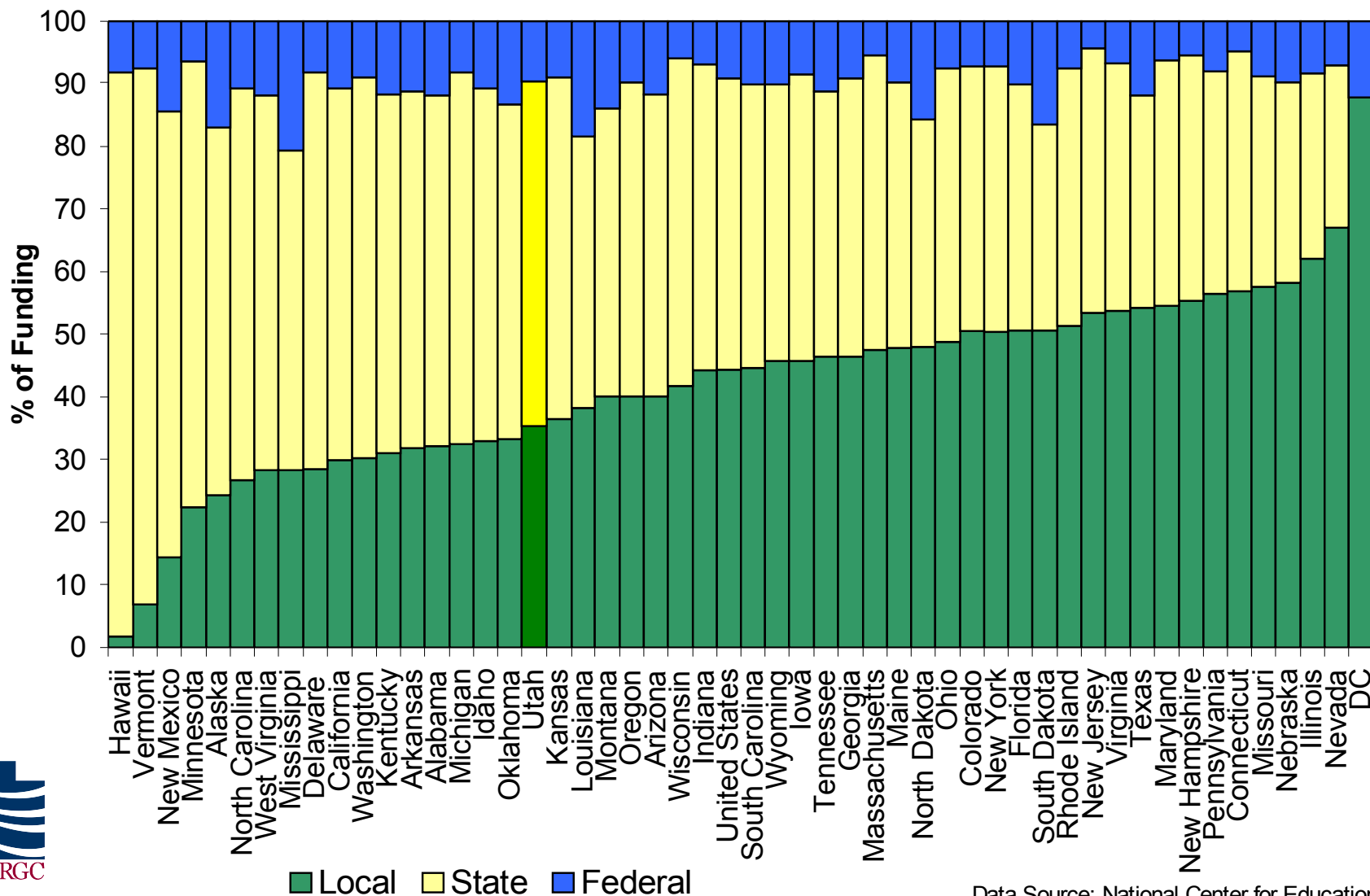
- School needs, however defined, are very unlikely to perfectly match up with the tax base of any revenue source on a geographic basis (school-by-school or district-by-district)
- Examples:
 - Some states allow a local income tax. The distribution of Utah's income tax base does not align with the distribution of the student population (one basic measure of school need).
 - Utah allows school districts to impose property tax. The distribution of the property tax base is not identical to the distribution of the student population (or of the income tax base).

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Funding Source Comparisons

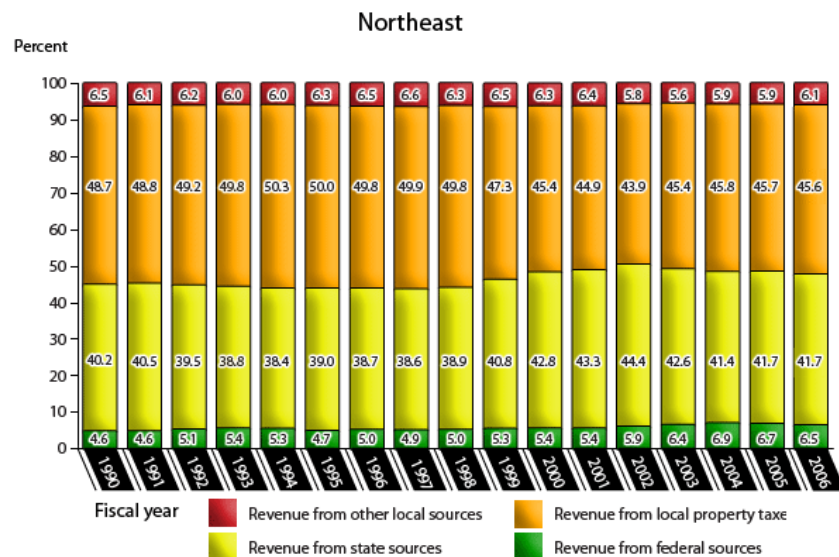
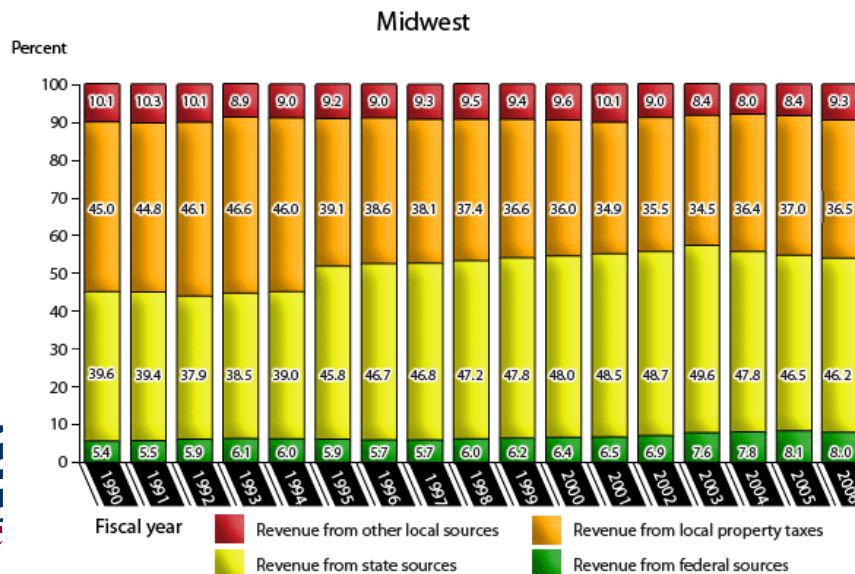
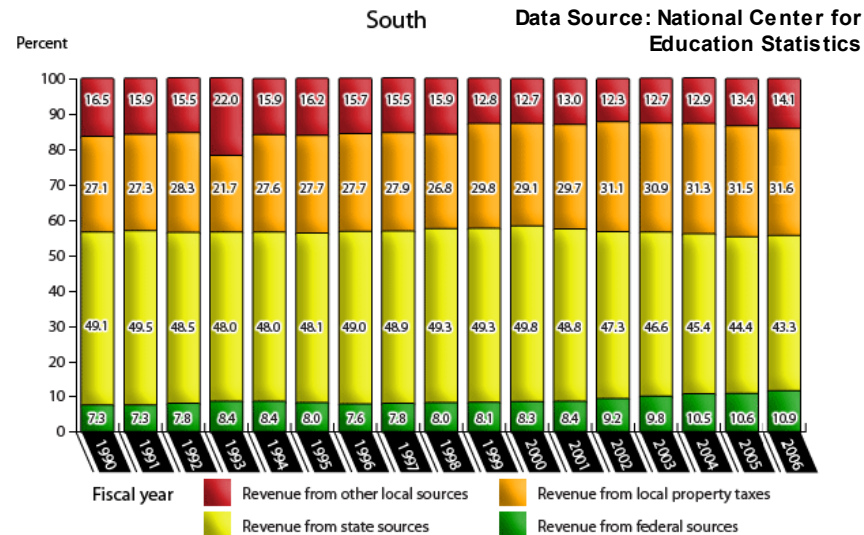
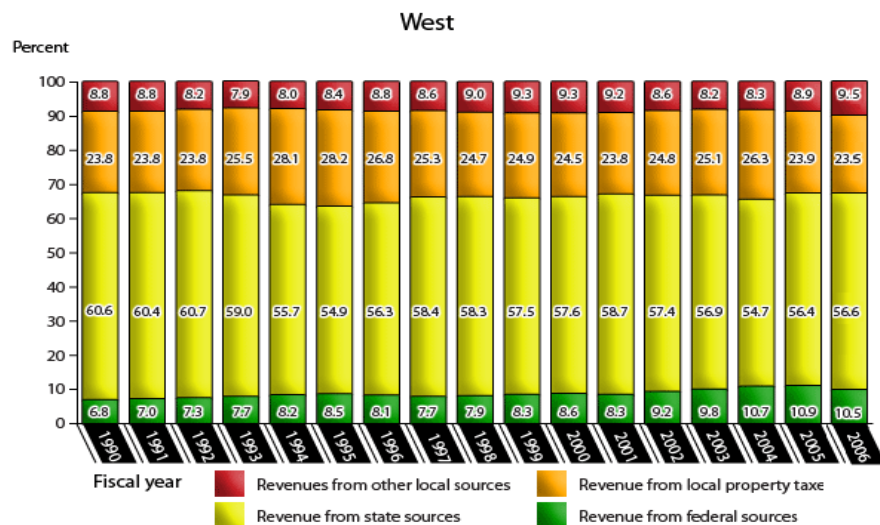
Utah Relies Less on Local Funding Than Many States



Data Source: National Center for Education Statistics

National Comparisons

Major Education Revenue Sources by Region



How is Utah Public Education Funded?

Major Revenue Sources:

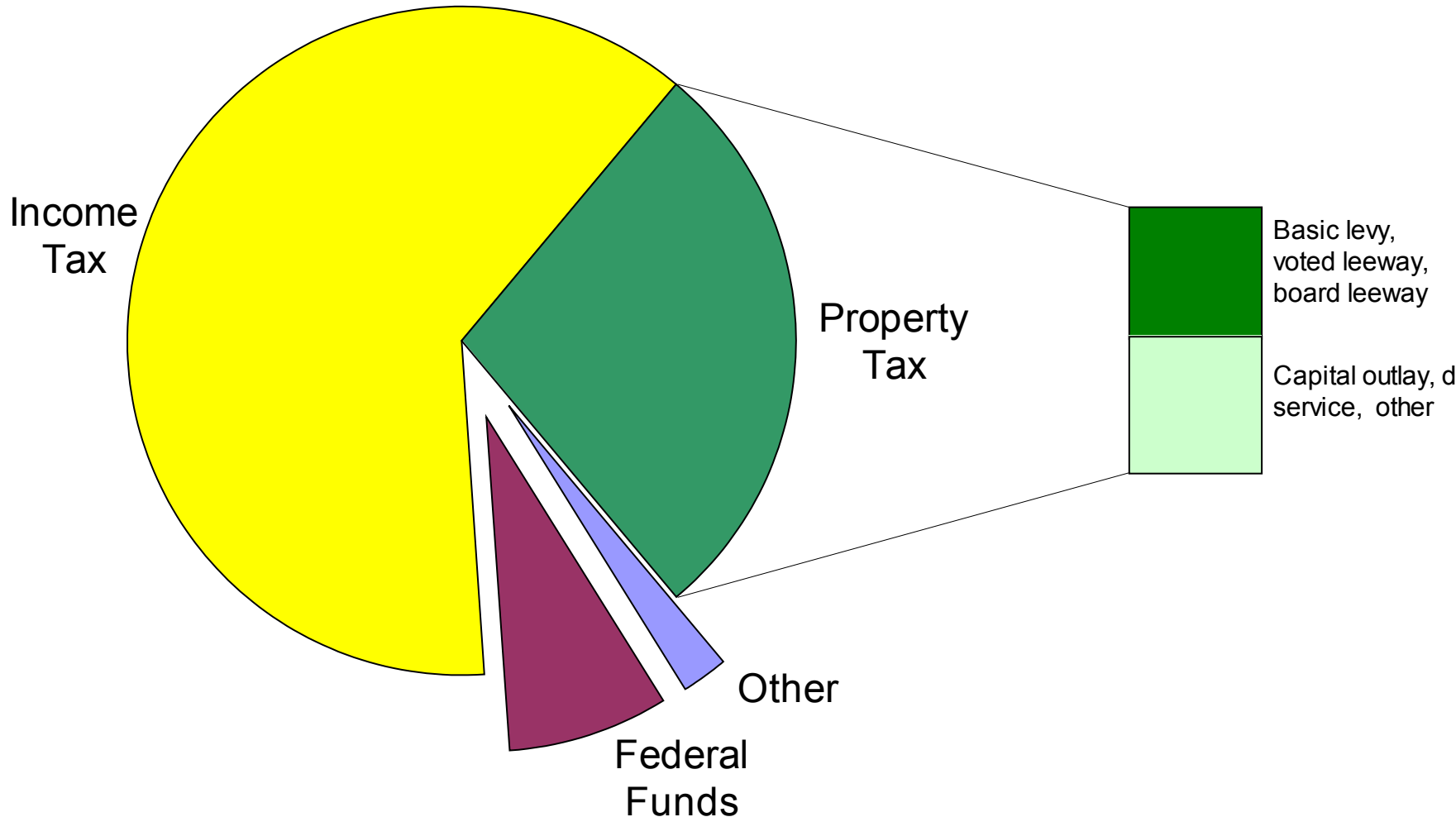
- Income Taxes (\$2.7 billion)
- Property Taxes (\$1.2 billion)
- Federal Funds (\$0.3 billion)
- Dedicated Credits and Other (\$0.06 billion)

Fiscal year 2008-09 estimates

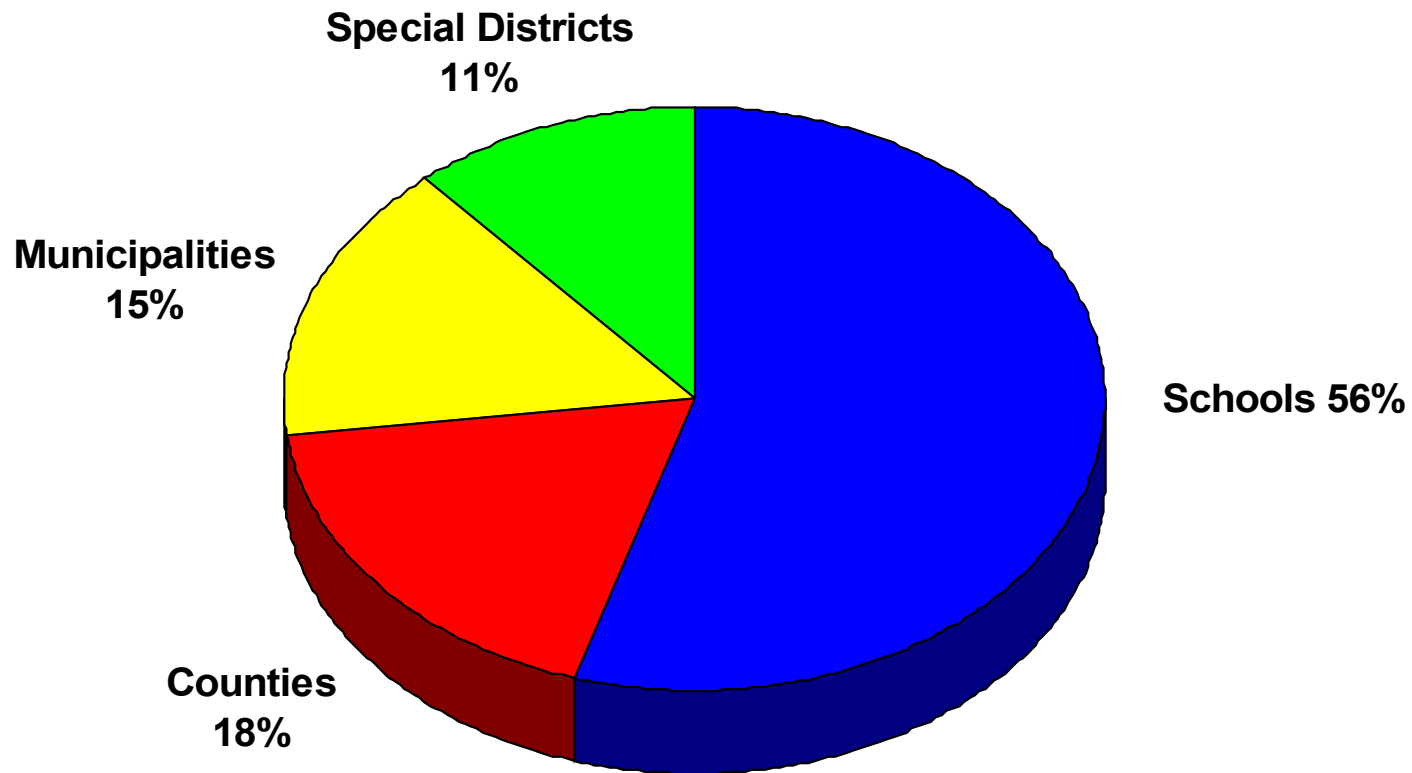
Data source: Office of the Legislative Fiscal Analyst, Utah State Tax Commission

Property Tax

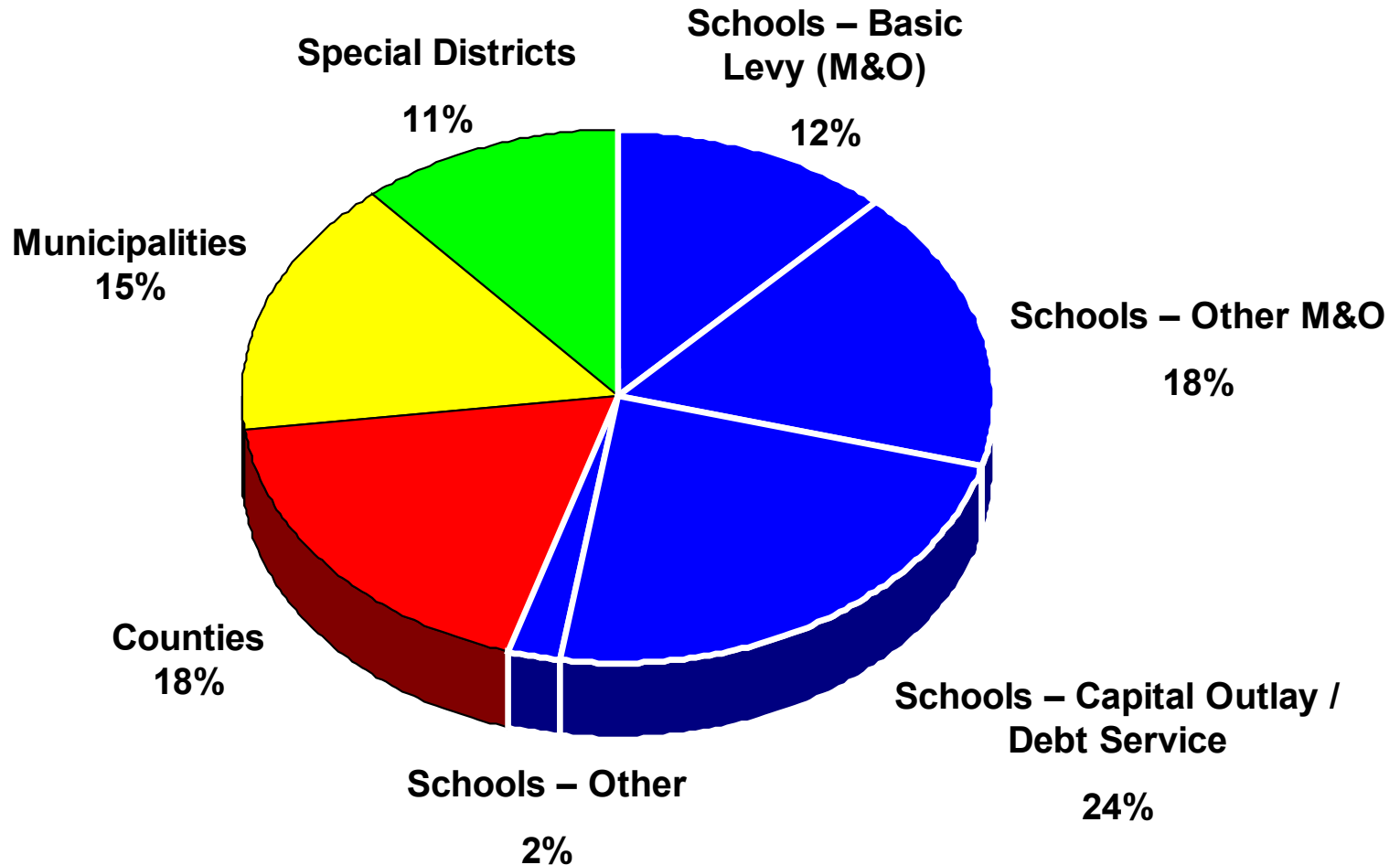
A Major Component of Utah Public Education Funding



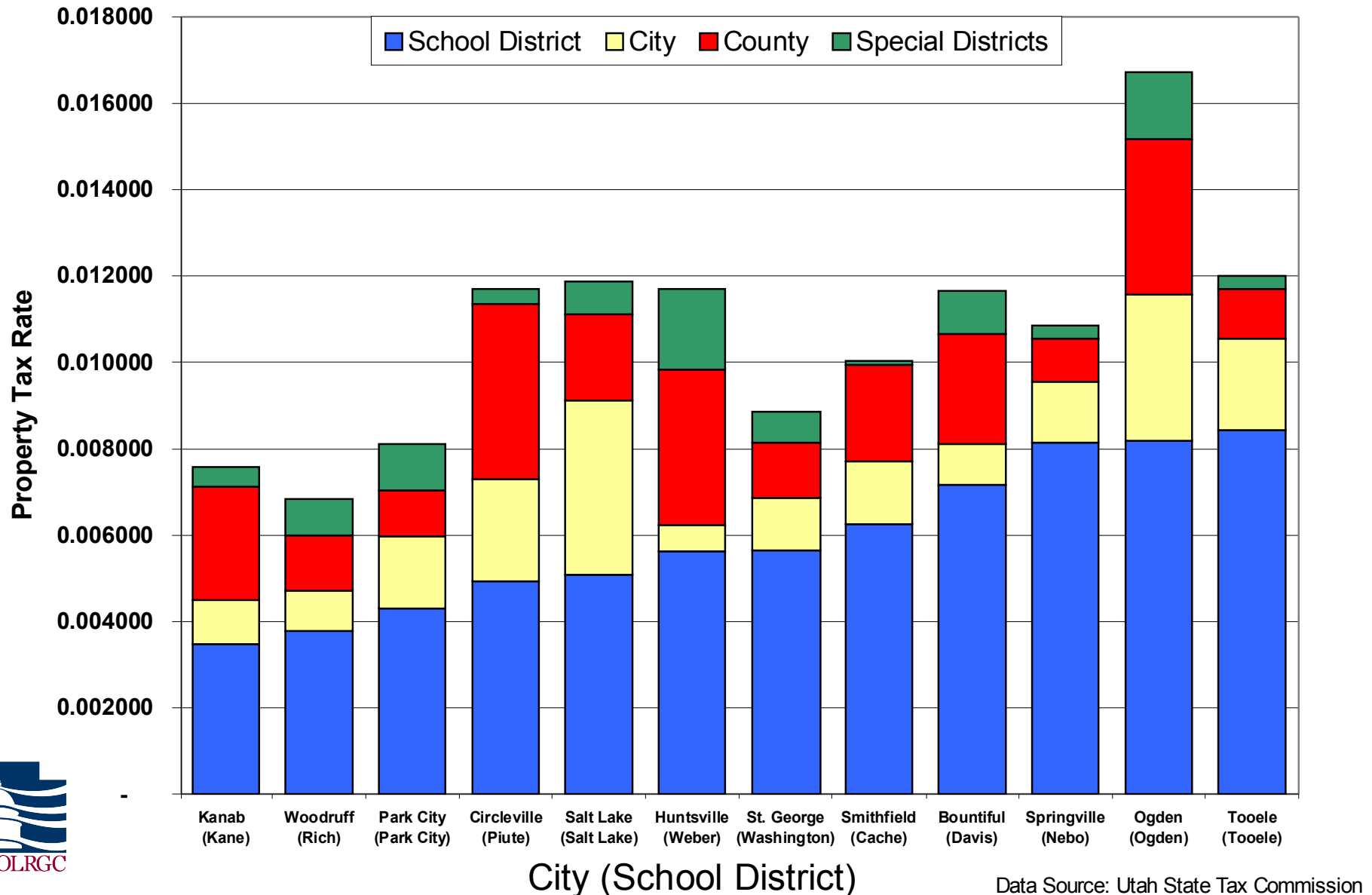
School Property Tax as a Percent of Total Property Tax



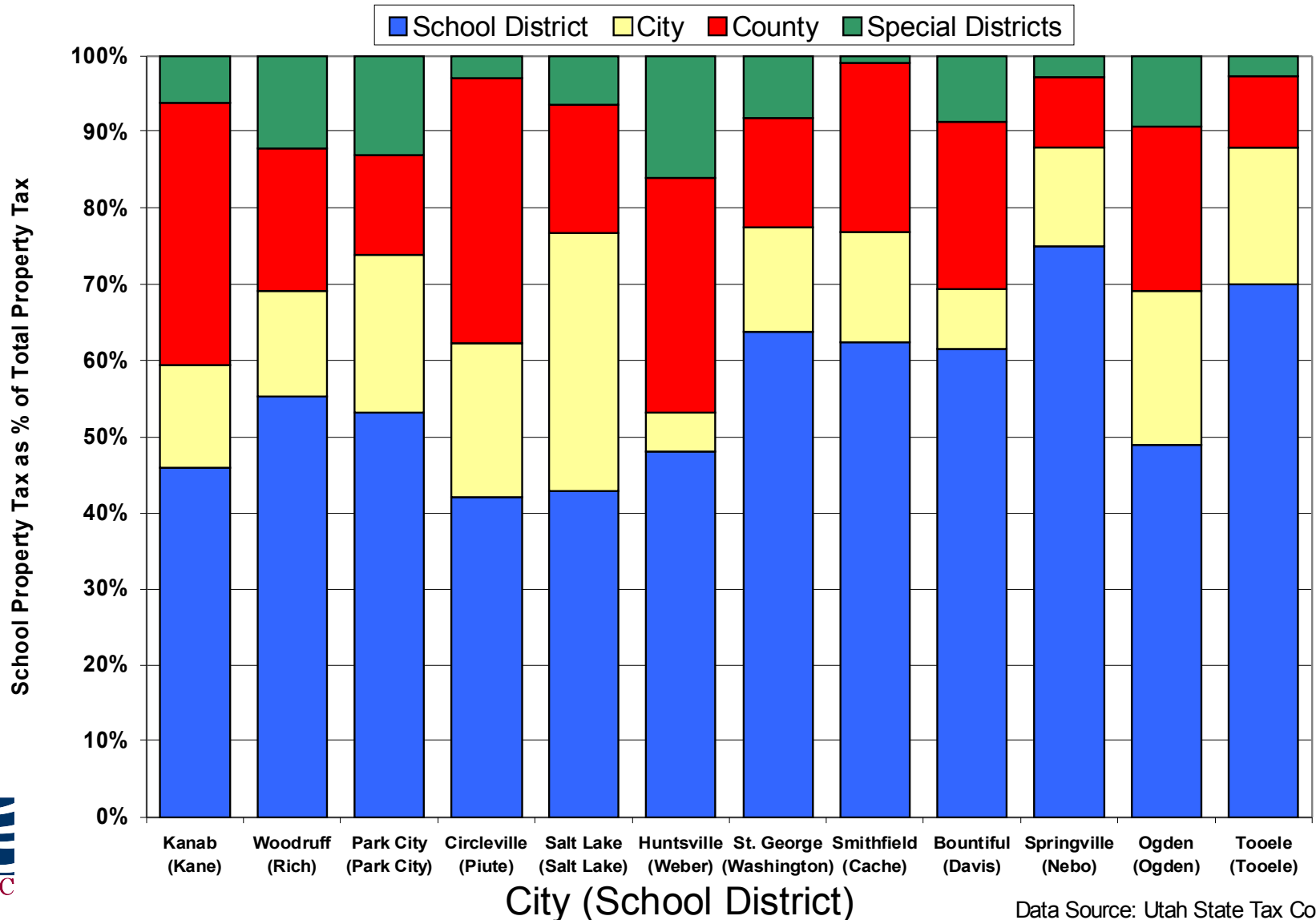
School Property Tax Types as a Percent of Total Property Tax



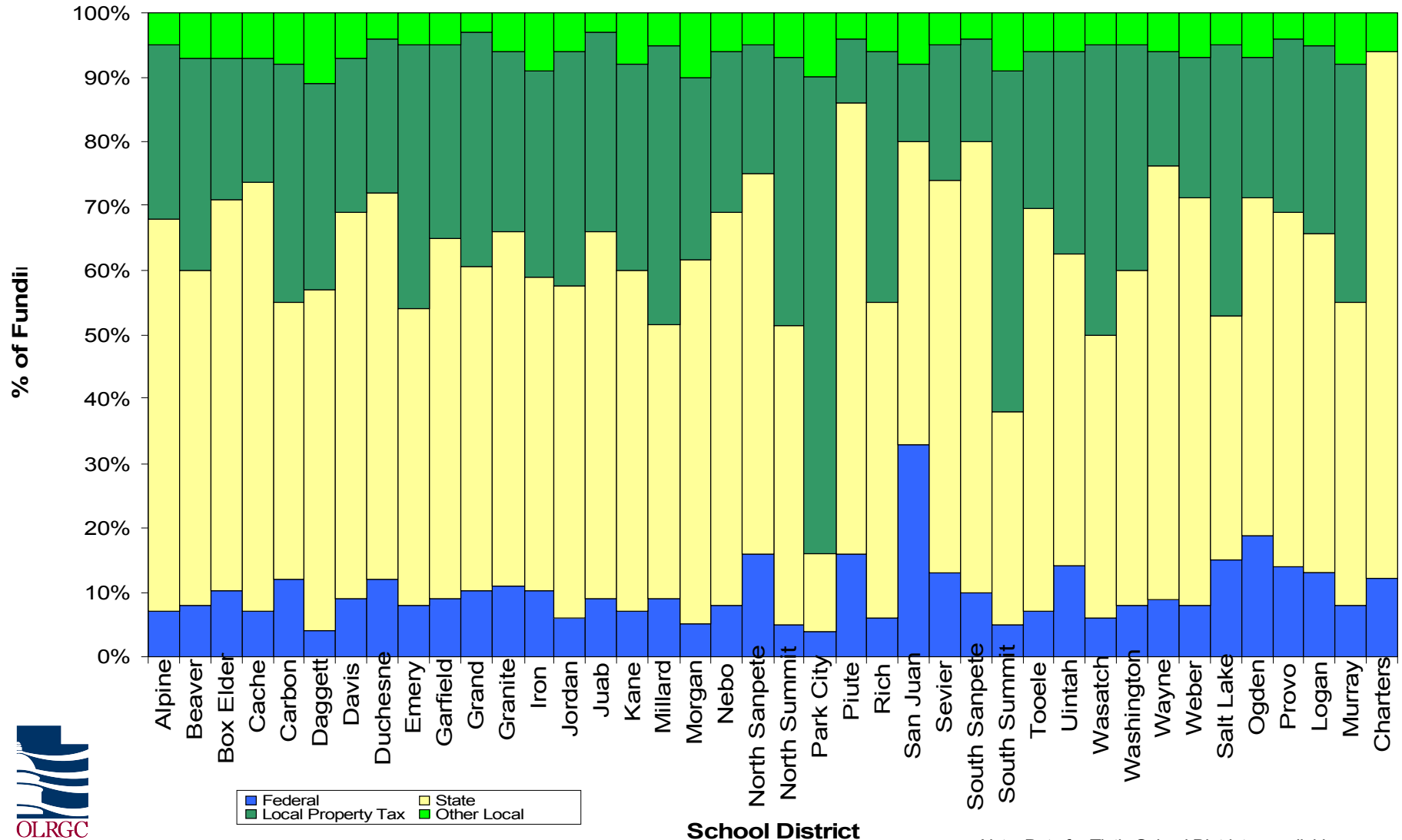
Property Tax Rates Vary by Location



School Property Taxes as a Percent of Total Property Taxes



Major Revenue Sources by District



Data Source: Office of the Legislative Fiscal Analyst

Note: Data for Tintic School District unavailable

Presentation Outline

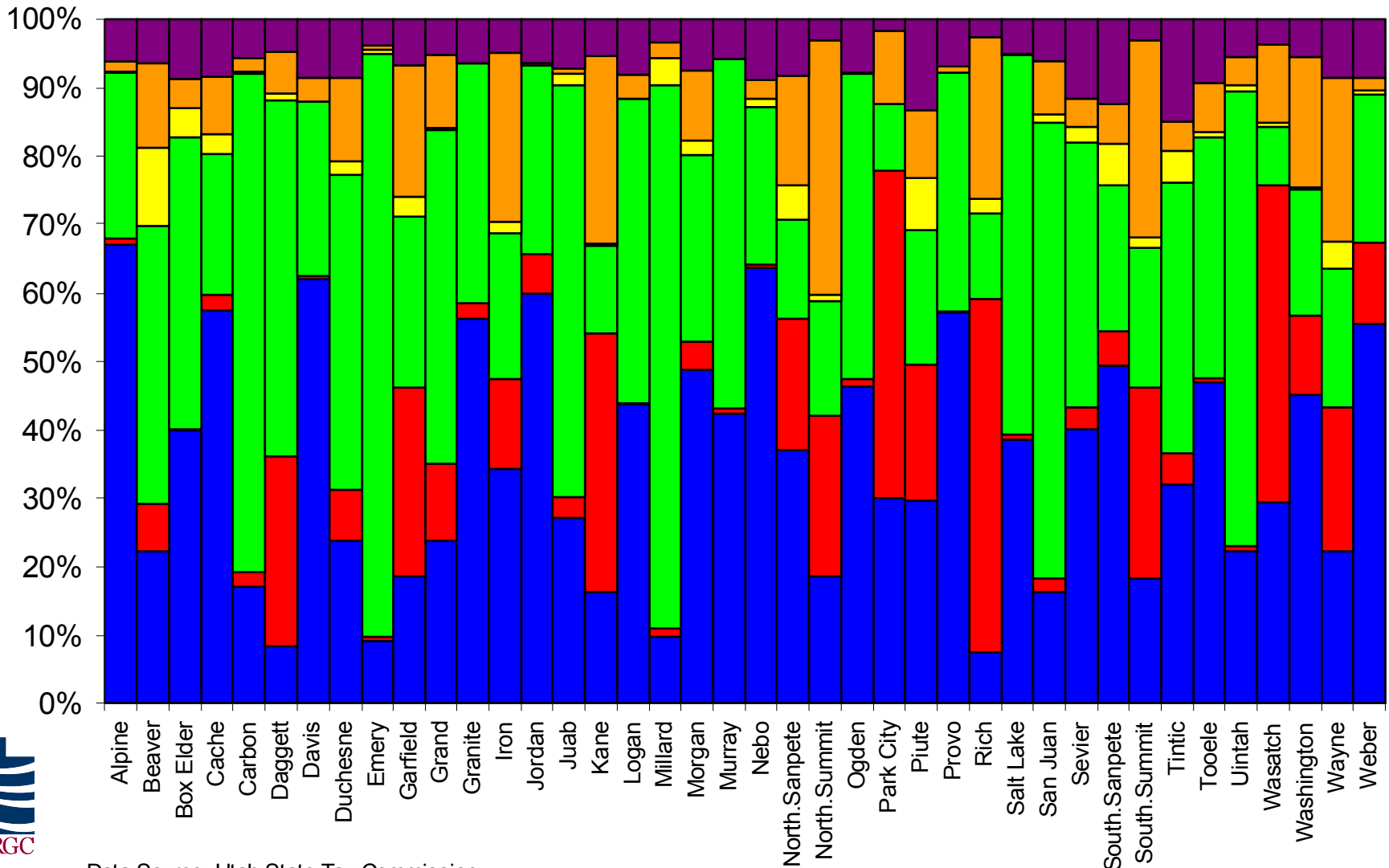
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Property Tax Bases Vary

- Some school districts have greater ability than others to generate revenue through property tax
 - Measures of school funding needs (such as student populations) and property values do not align geographically
- Why do school district property tax bases vary?
 - Overall fair market value differences in different areas
 - Different mix of property types (commercial, residential, agricultural, etc.)
 - Exemption / valuation differences among property types
 - Primary residences receive 45% exemption, so 55% of value taxable
 - Agricultural properties valued based on agricultural use, not fair market value
- Charter schools have no property tax base and cannot impose a property tax

School District Property Tax Base Composition

■ Primary Residential ■ Secondary Residential ■ Commercial / Industrial (includes centrally assessed) ■ Agricultural ■ Vacant Land (non-FAA) ■ Motor Vehicle



Impact of Property Tax Base on Property Tax Revenues

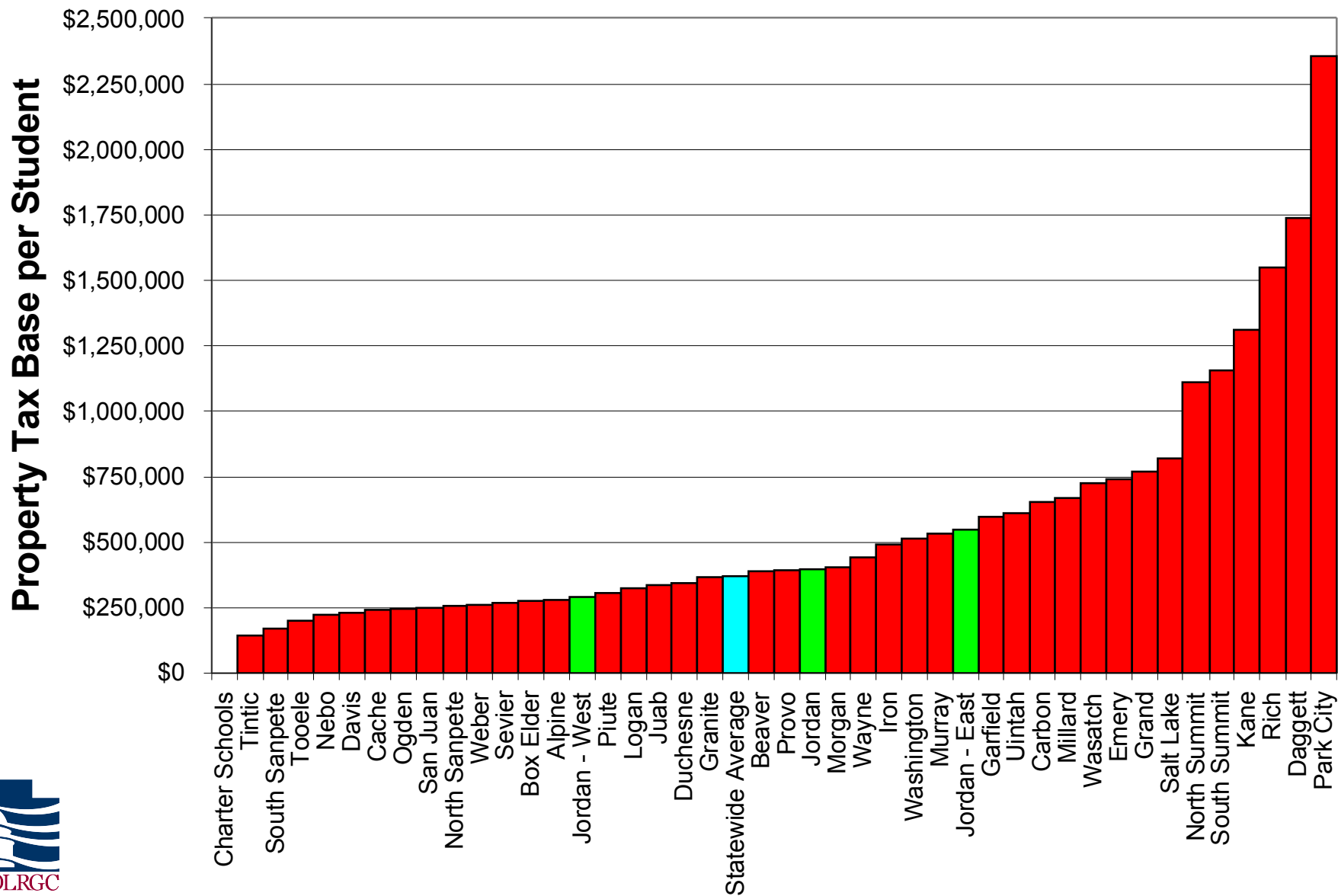
Suppose 3 school districts each need to raise \$1 million per year. The districts each have a different tax base from which to generate the \$1 million. To generate the same amount of total revenue, a taxpayer with an identically valued home in District A will pay five times the amount of tax the taxpayer in District C pays, because District C is able to generate the same revenue at a lower tax rate due to its larger tax base.

	<u>District A</u>	<u>District B</u>	<u>District C</u>
Tax Base	\$1,000,000,000	\$2,000,000,000	\$5,000,000,000
Needed Revenue	\$1,000,000	\$1,000,000	\$1,000,000
Rate Required to Generate Revenue	0.001000	0.000500	0.000200
Tax impact on \$250,000 primary residence	\$138	\$69	\$28

Because school districts have different sized tax bases and varying numbers of students to serve, it can be difficult to directly compare taxing capacity among school districts. One method of comparison is to compute the tax base per enrolled student.

Total Enrollment	8,000	4,000	2,000
Tax Base per Enrolled Student	\$125,000	\$500,000	\$2,500,000

Taxable Property Tax Base per Student

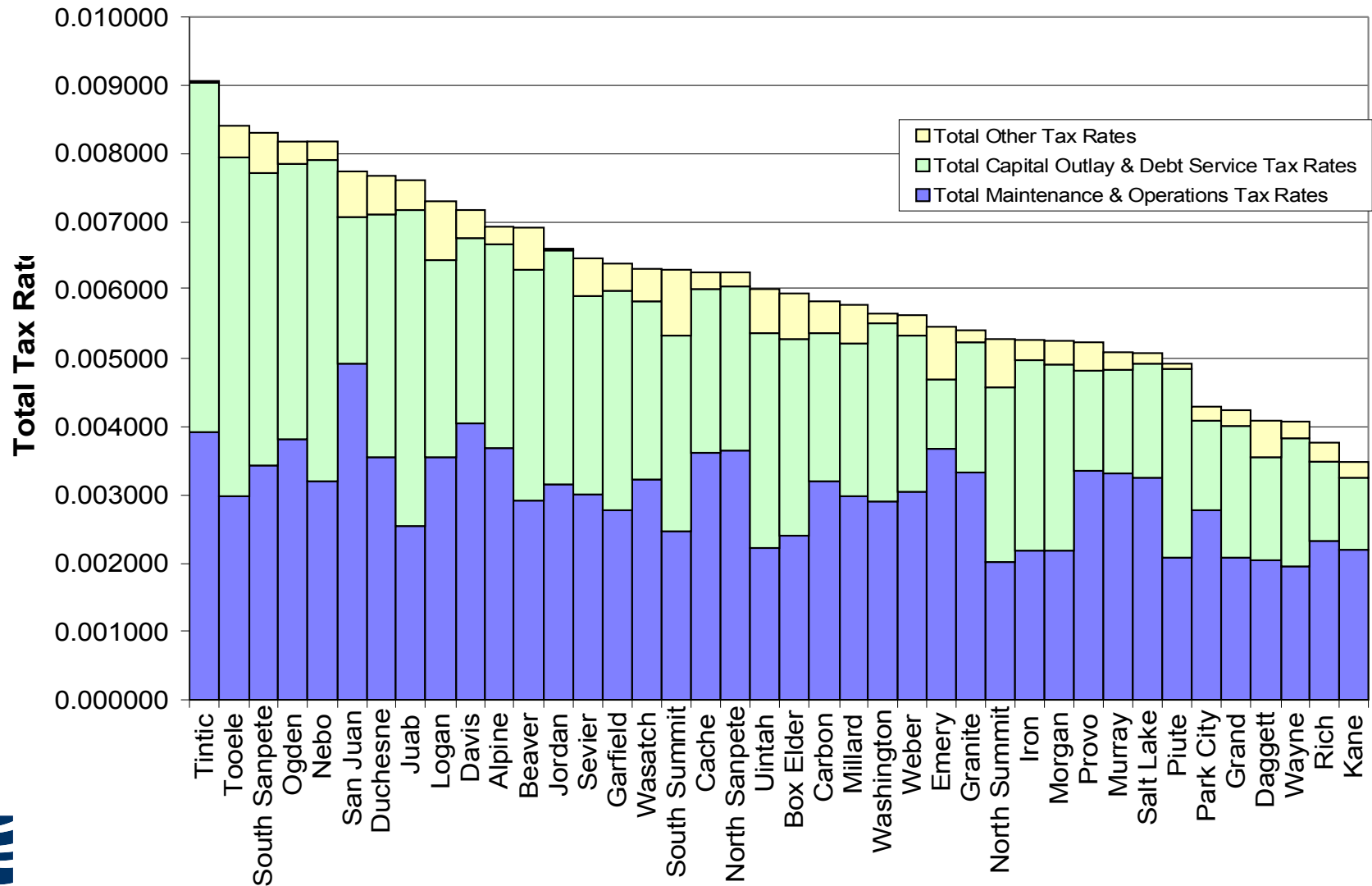


School District Property Tax Levies

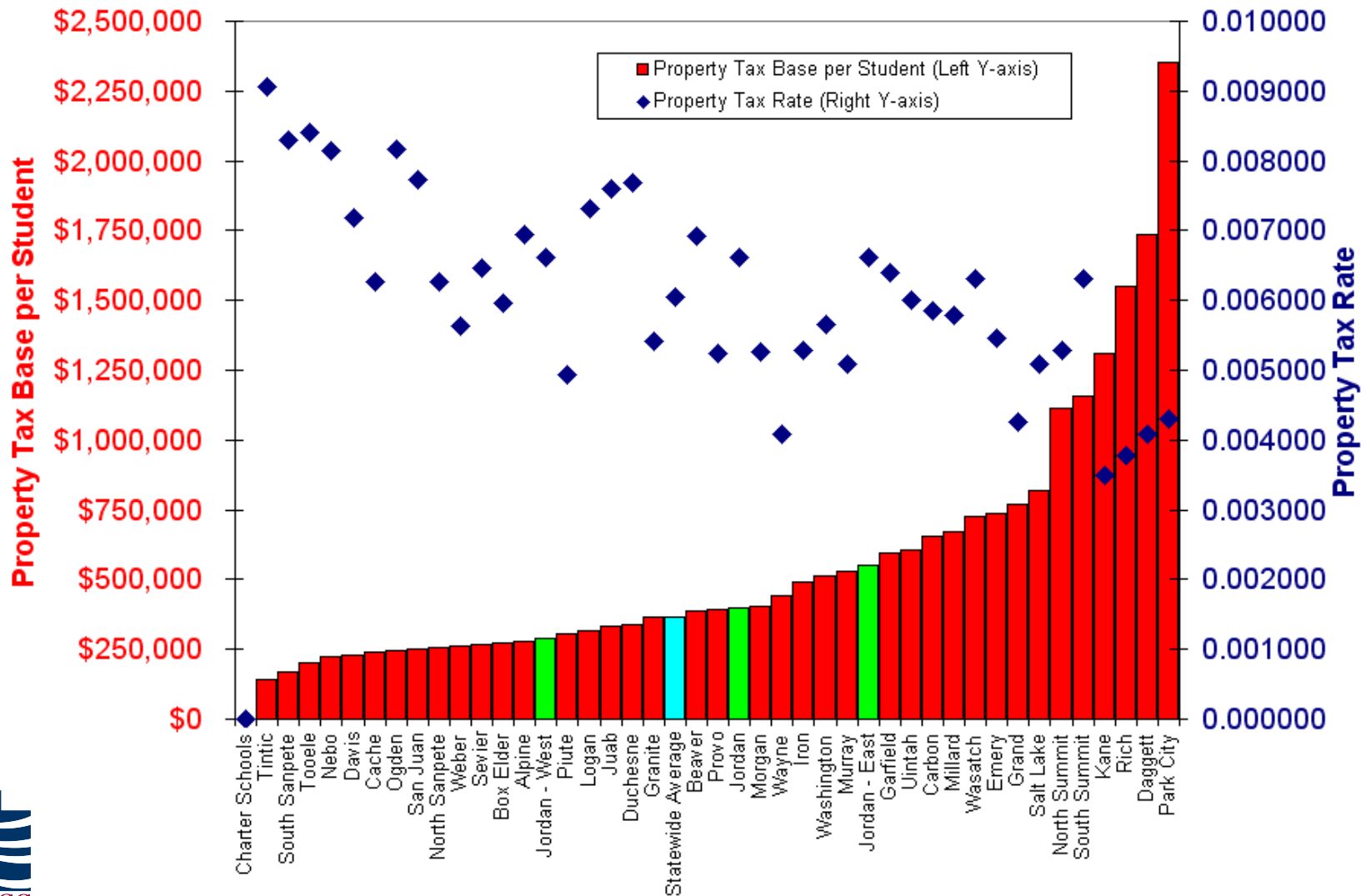
- Operations Levies
 - Basic levy
 - Voted leeway
 - Board leeway
 - K-3 reading
- 10% of basic levy
 - 10% of basic levy can be used both for certain operations purposes (textbooks and supplies) and for capital outlay / certain debt service purposes
- Capital Outlay & Debt Service Levies
 - Debt service
 - Capital outlay
 - Voted capital outlay (not currently imposed)
- Other Levies
 - Special transportation
 - Recreation
 - Judgment
 - Tort Liability
 - Public Law 874 - Federal impact aid / Title VII (not currently imposed)

Utah School District Property Tax Rates

Tax Year 2007



Property Tax Base per Student and Total Tax Rate

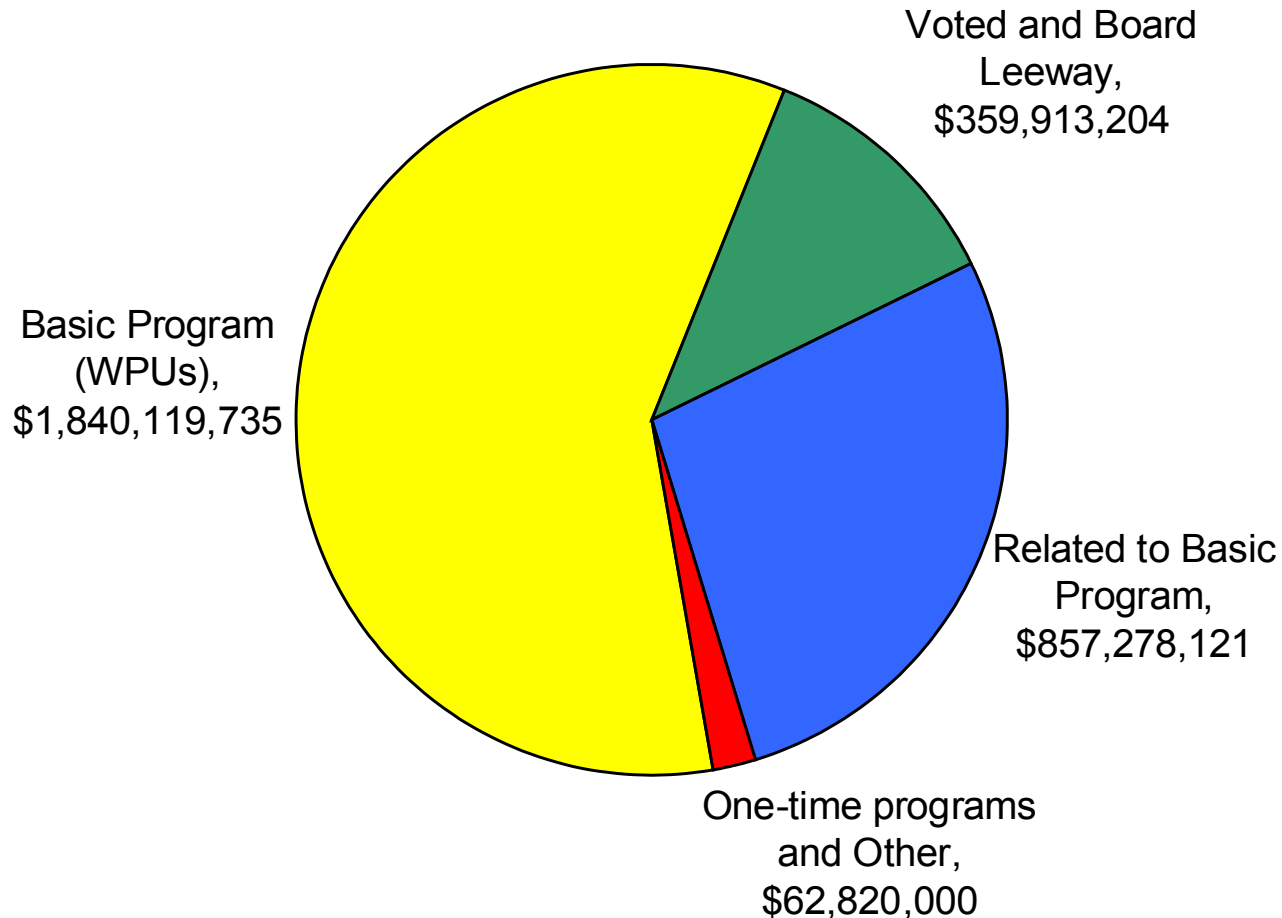


Data Source: Utah State Office of Education

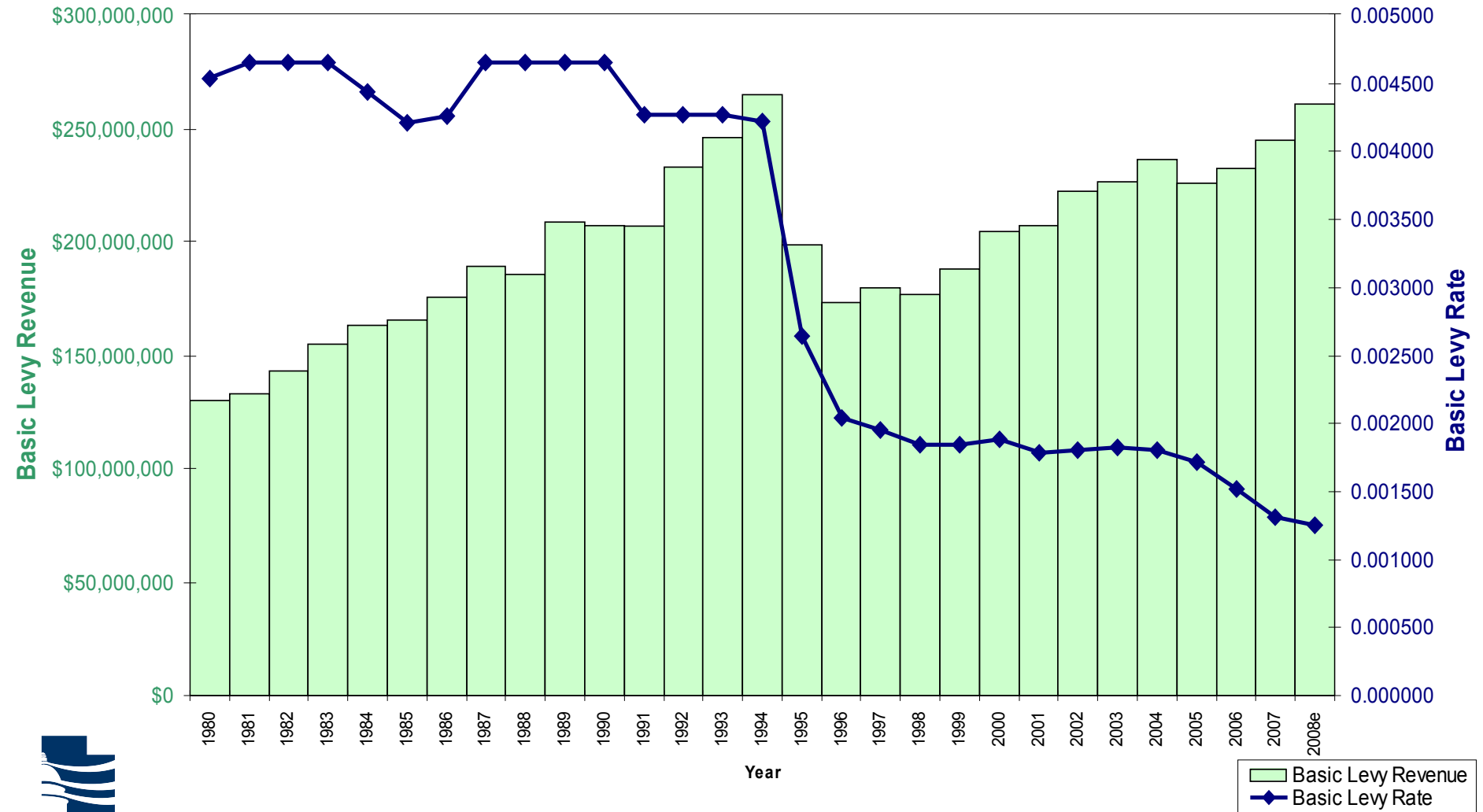
Current School Funding Equalization

- Basic Program
 - Utah's basic program (WPU) in the operations portion of the public education budget is often seen nationally as a model of an equitable education funding system
 - Similar students meeting qualifying characteristics are funded similarly
 - Districts with different property tax base receive same funding level
 - Different student characteristics yield different funding amounts
 - Kindergarten student generates less funding than other grades (0.55 WPU)
 - Special education student generates more funding
 - Each school district imposes the basic levy – an identical tax rate statewide
 - Because of the equalized basic program, a large portion of the maintenance and operations budget for schools is equalized
- Other Funding
 - Schools can generate additional revenue by imposing certain property tax levies authorized by statute
 - Some state funding minimally equalizes certain other property tax levies (voted leeway / board leeway guarantee) but not equalized near the extent of the basic program equalization
 - School Building Program
 - Foundation Program
 - Enrollment Growth Program
 - Non-WPU driven programs (“below-the-line”) funded with income taxes collected on an equal basis statewide

Components of the Minimum School Program



Basic Levy History



The Weighted Pupil Unit (WPU)

- The WPU is not total per-pupil spending
- The WPU is used to determine the cost of the basic school program on a uniform basis for each student
 - 1 WPU = 1 student in average daily membership (ADM)
 - Students in Kindergarten receive 0.55 WPUs
 - Specific programs generate additional WPUs, generally based on student qualifications (special education, technology education, etc.)
- The Legislature establishes the WPU value annually
 - FY 2009 WPU Value = \$2,577
 - Districts and charter schools receive basic program funding based on their total number of WPUs
 - Hypothetical example:
 $1,000 \text{ WPUs} \times \$2,577 = \$2,577,000$ (total basic program funding)

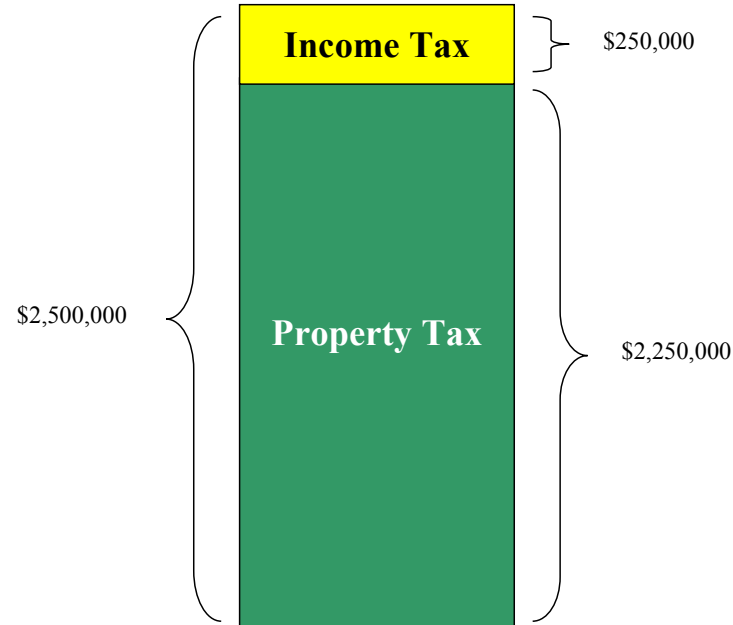
How is the Basic Program Equalized?

Hypothetical District

1,000 WPUs x \$2,500 per WPU = **\$2,500,000 basic program amount**

Property tax base = \$1,500,000,000 x basic levy (.001500) = **\$2,250,000 property tax revenue**

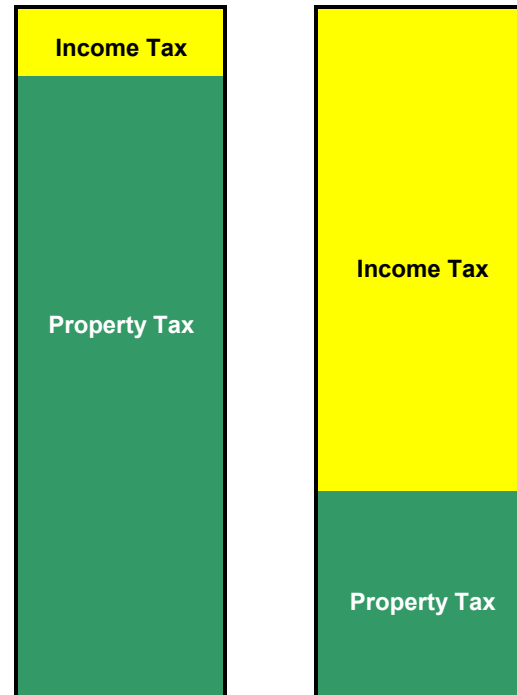
\$250,000 Income Tax (Uniform School Fund)



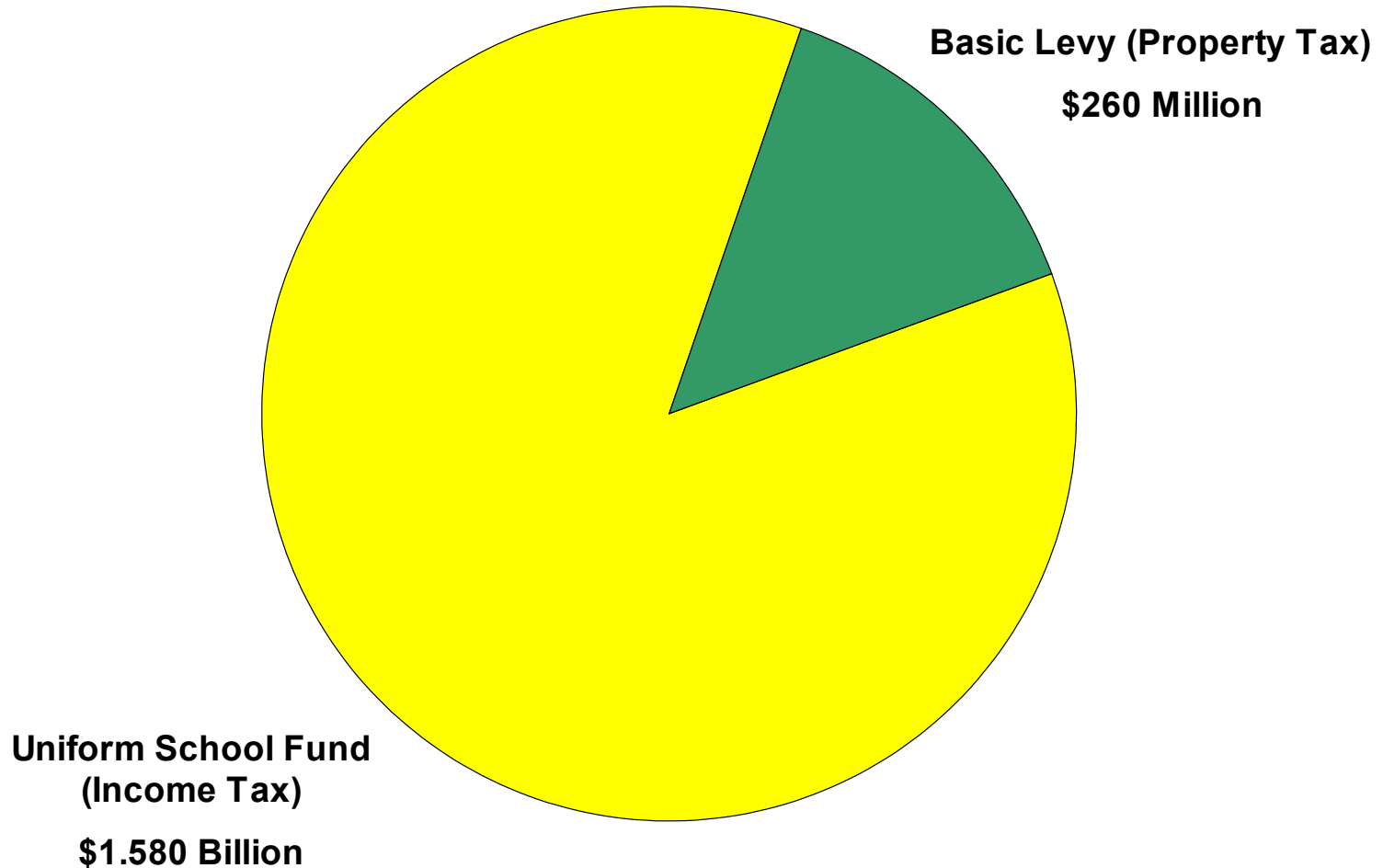
Basic Program

Two Hypothetical School Districts

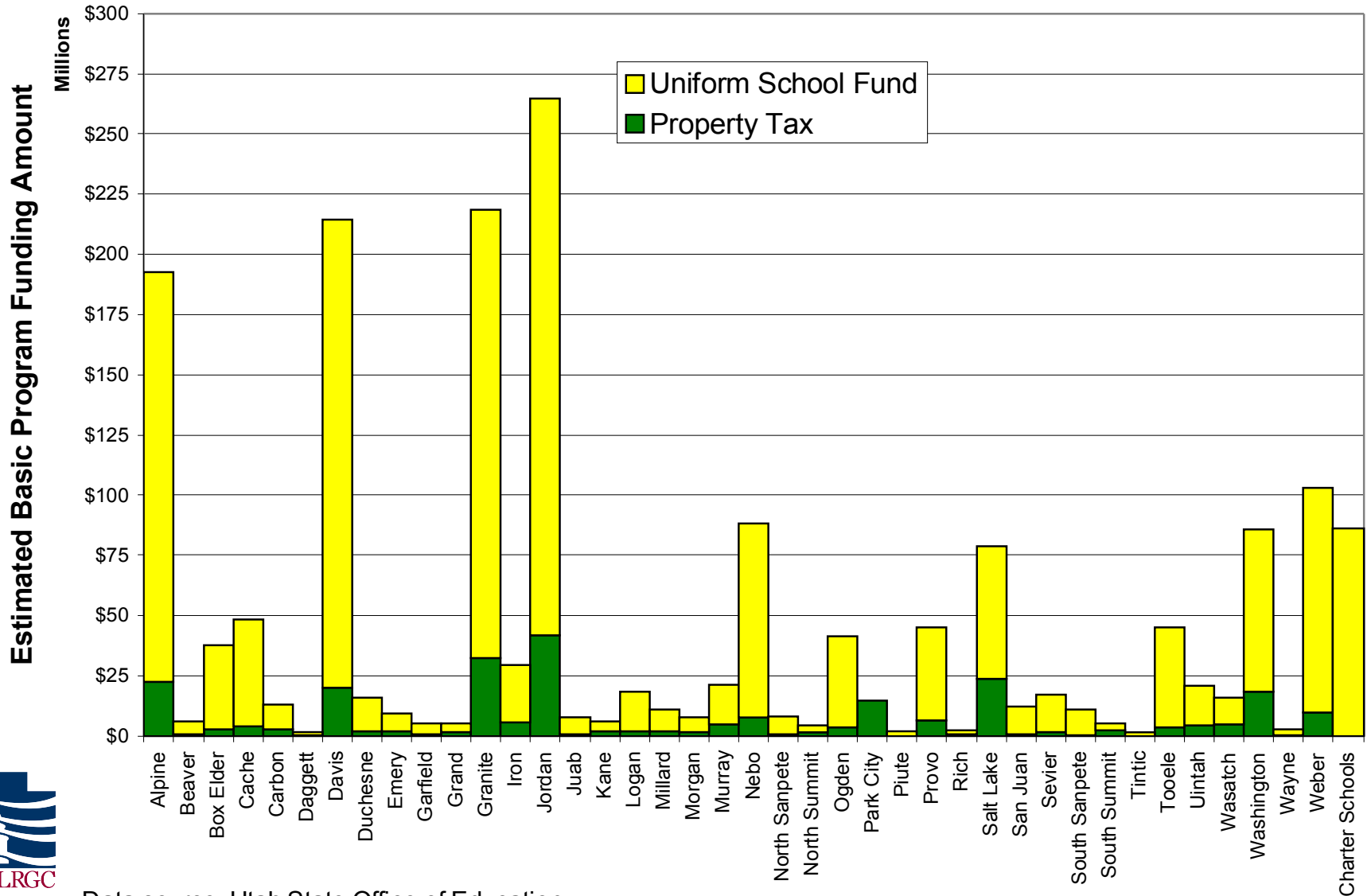
	District A	District B
Value of WPU	\$2,500	\$2,500
WPUs	1,000	1,000
Basic program statutory entitlement	<u>\$2,500,000</u>	<u>\$2,500,000</u>
Net Taxable Value (Property Tax Base)	\$1,500,000,000	\$500,000,000
Basic levy (Tax Rate)	0.001500	0.001500
Basic Levy Yield (Property Tax Revenue)	<u>\$2,250,000</u>	<u>\$750,000</u>
Allocation from Uniform School Fund	\$250,000	\$1,750,000



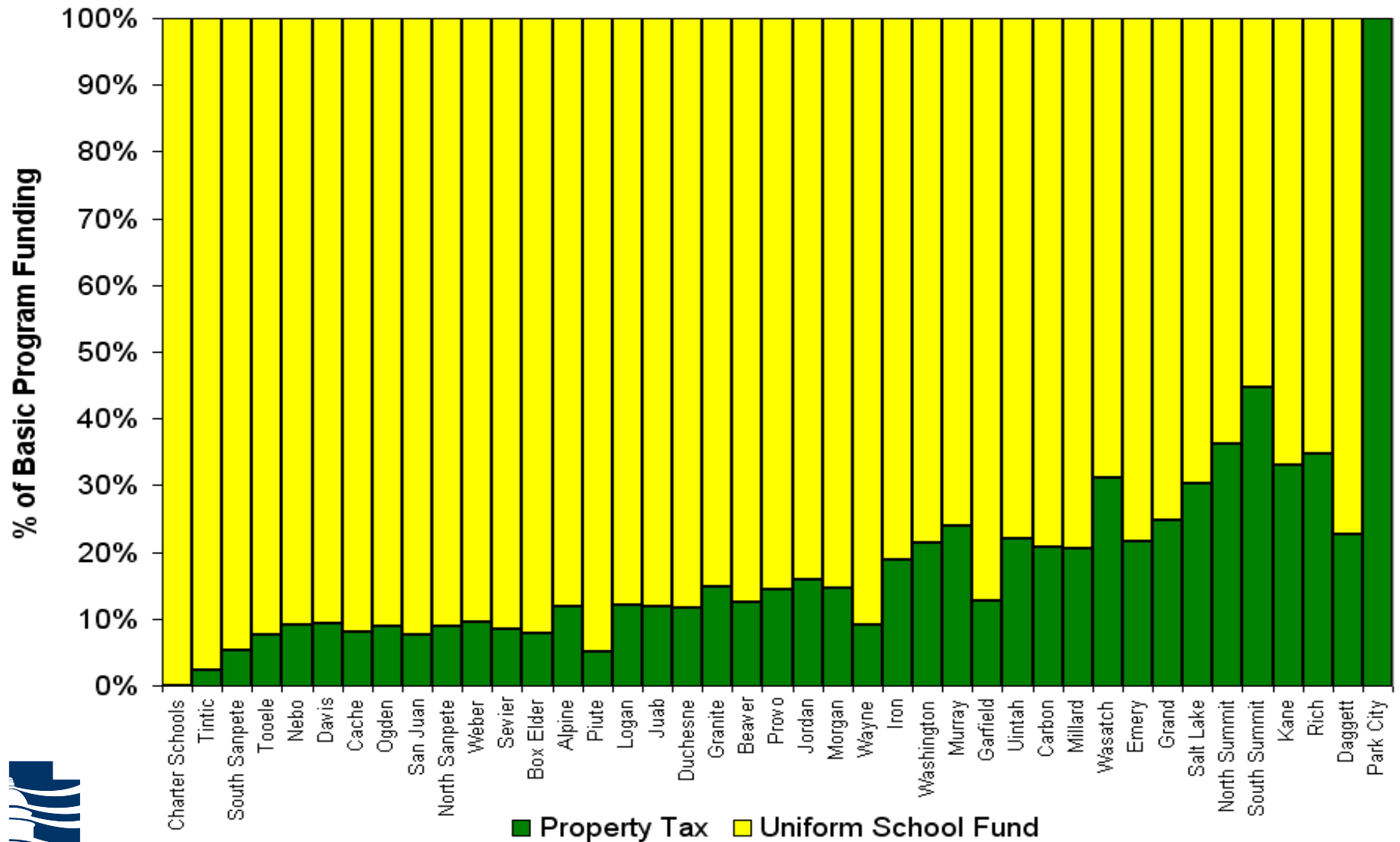
Statewide Basic Program Funding Sources



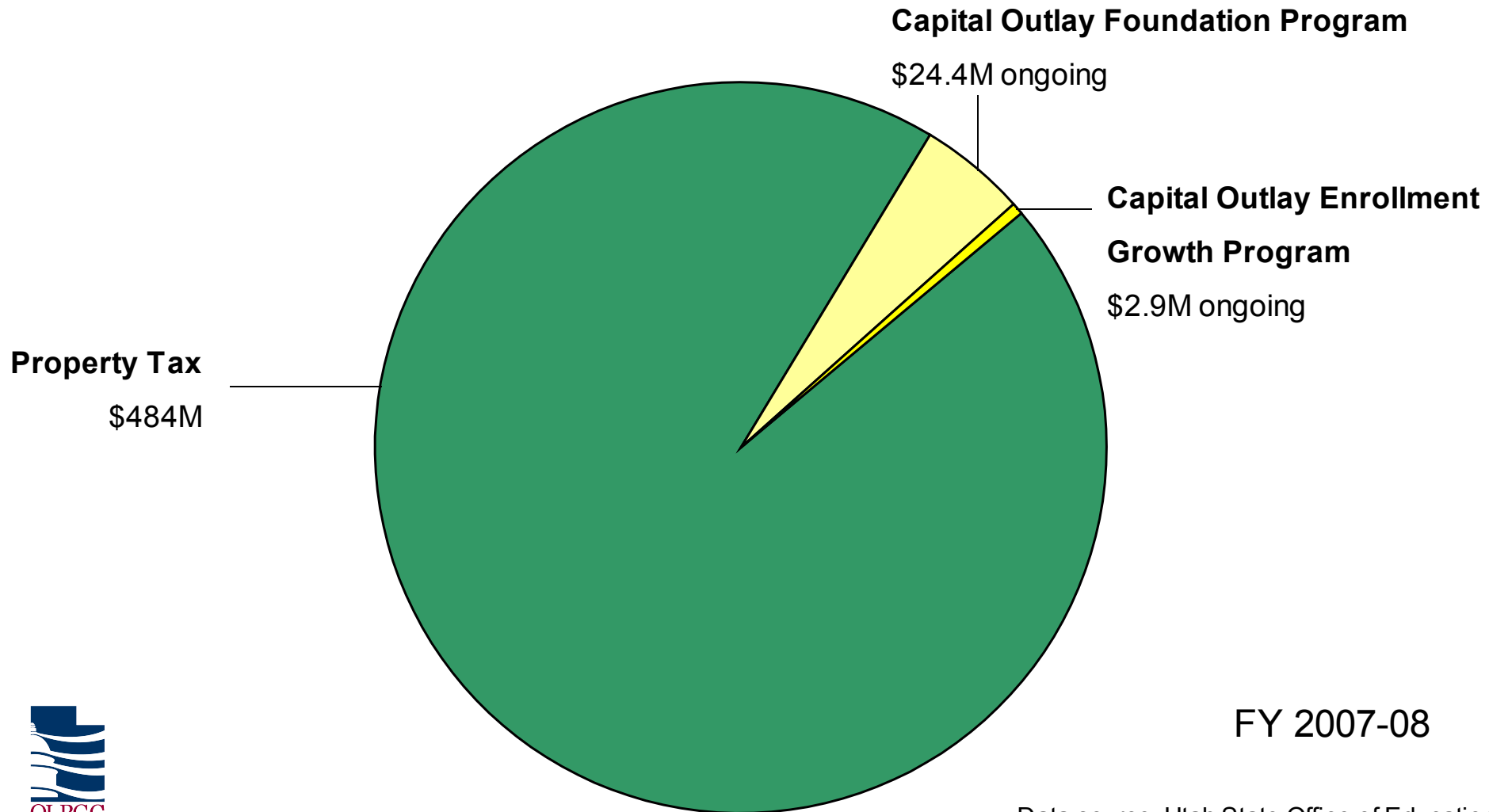
Basic Program Amounts



Basic Program Funding Source



Statewide School District Capital Outlay Funding Sources



FY 2007-08

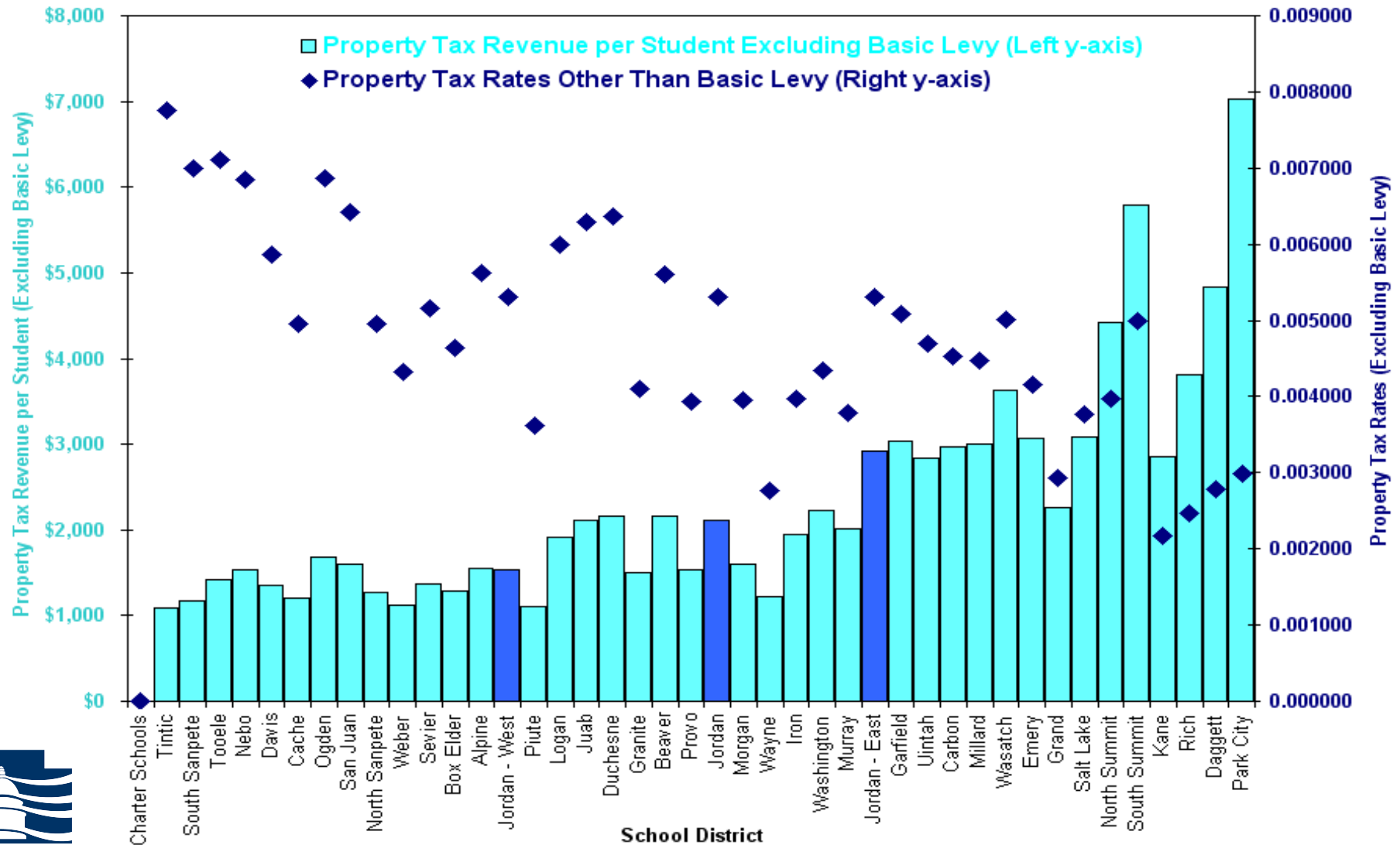
Data source: Utah State Office of Education

School Funding System

Relies on Accurate Property Valuation

- Failure to accurately and uniformly assess properties at fair market value distorts the allocation of school funds
 - With the truth-in-taxation certified rate process, undervaluation of properties in one area causes higher taxes statewide through an increase in the certified rate for the basic levy
 - In addition to basic program funding, other state funds are also tied to property tax values per student, including voted/board leeway guarantees and capital outlay foundation program
- So assessment practices by the Tax Commission and assessors in each county impact taxpayers statewide

Property Tax Revenue per Student



2008 General Session

School Property Tax Equalization Bills

- HB 1 – Basic Program
 - Establishes the tax year 2008 basic levy rate (estimated)
- SB 2 – Basic Program and Property Tax Allocations for Charter Schools
 - Increases the value of the WPU to \$2,577
 - Requires school districts to provide a portion of revenue from certain property tax levies for charter school students residing within the district boundaries
- SB 48 – School District Capital Outlay
 - Requires a partial equalization of the capital outlay property tax levy within Salt Lake County

Theoretical Equalization Continuum

Who should pay for school costs?

User Fee

Impact
Fee

District-wide
Equalization

County-wide
Equalization

Statewide
Equalization

Only parents
of children in
schools

Owners of
new homes
and new
businesses

All property owners
within school
district

All property owners
within a county (same
as district in all but 7
counties)

Taxpayers
statewide

*Secondary
school fees*

*Currently
prohibited by
statute*

*Discretionary school
property tax levies
(voted leeway, board
leeway, debt service
levy, capital outlay
levy, etc.)*

*Partial capital outlay
equalization in county of
the first class*

*Basic levy / basic
program, educator salary
adjustments, state pupil
transportation funds*

Please feel free to contact
staff with any questions:

Office of Legislative Research and General Counsel

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